

24 February 2026

Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

Submitted by e-mail to: [TheMillsReview@fca.org.uk](mailto:TheMillsReview@fca.org.uk)

Dear Mr. Mills,

**Response to the FCA's Review into the long-term impact of artificial intelligence on retail financial services (The Mills Review)**

CFA Institute<sup>1</sup> welcomes the Mills Review and the opportunity to contribute to the FCA's assessment of artificial intelligence (AI)'s long-term impact on retail financial services. Our submission reflects a shared commitment to investor protection and market integrity, while recognising the importance of proportionate regulation that supports responsible innovation and orderly market dynamics.

The Review's "proxy economy" framework – tracing AI's progression from assistive tools to advisory systems to ultimately autonomous agents acting within agreed limits – is a useful way of framing both opportunity and risk. It also sharpens a central regulatory question: how to keep existing, principles-based protections effective when consumer decision-making is increasingly delegated to systems that may sit outside traditional distribution and advice models. We appreciate The Mills Review is a timely and forward-looking review.

We support the FCA's intention to remain technology-neutral and outcomes-focused, rather than creating a standalone AI rulebook. The UK's competitive advantage lies in regulatory credibility – where the Senior Managers and Certification Regime (SM&CR), the Consumer Duty, and the UK's principles-based framework together has provided a strong foundation for responsible AI deployment while sustaining cross-border confidence.

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<sup>1</sup> With offices in Charlottesville, VA; New York; Washington, DC; Hong Kong SAR; Mumbai; Beijing; Abu Dhabi; and London, CFA Institute is a global, not-for-profit professional association of more than 190,000 members, as well as 160 member societies around the world. Members include investment analysts, advisers, portfolio managers, and other investment professionals. CFA Institute administers the Chartered Financial Analyst® (CFA®) Program. For more information, visit [www.cfainstitute.org](http://www.cfainstitute.org) or follow us on [LinkedIn](#) and [X](#).

But confidence in that approach depends on supervisory clarity that is practical, enforceable and consistent. Unclear regulatory expectations may delay or constrain responsible deployment. The House of Commons Treasury Committee's report<sup>2</sup> on AI in financial services (published 20 January 2026) makes a similar point, recommending that the FCA publish clear, comprehensive practical guidance by the end of 2026 on how existing consumer protection rules and SM&CR expectations apply to firms' use of AI.

Ultimately, market integrity and trust remain preconditions for AI innovation to deliver durable benefits, rather than short-term efficiency gains at the expense of resilience.

## Our key propositions

- ***The regulatory perimeter should follow function, not technological form.*** Regulatory treatment should be determined by what an AI does for consumers in practice, rather than how it is technically constructed or labelled. A technology-neutral approach remains appropriate.
- ***The Consumer Duty is the appropriate foundation, but requires AI-specific articulation.*** The Duty's four outcomes offer sufficient architecture. What is needed is clearer guidance on how those outcomes apply to AI-driven retail-facing services.
- ***Proportionality matters.*** We recommend a proportionate, tiered governance framework mapping to the assistive–advisory–autonomous spectrum, with stricter standards and gating conditions as autonomous, consumer-facing discretion increases.
- ***Accountability requires genuine understanding.*** A gap between nominal SM&CR obligations and substantive comprehension of AI systems presents supervisory risks.
- ***Continued engagement with IOSCO and FSB is essential*** to ensure international alignment, given the cross-border nature of AI infrastructure and capital flows.
- ***Hybrid talent and professional standards are core infrastructure.*** Responsible AI adoption depends on professionals who combine technical fluency with fiduciary judgement and market expertise. Developing such hybrid capacity within firms and regulators will be critical to the UK's competitiveness in an AI-mediated financial system.

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<sup>2</sup> [UK Parliament House of Commons Treasury Committee - Artificial intelligence in financial services](#) and the corresponding [news article](#)

This response draws on CFA Institute’s research and regulatory engagement on AI in capital markets, as well as the wider policy and academic literature. Below is a list and links to those various pieces published by CFA Institute:

- [\*T-shaped teams organizing to adopt AI and big data at investment firms\*](#) (2021).
- [\*Ethics and Artificial Intelligence in Investment Management: A Framework for Professionals\*](#) (2022).
- [\*Creating Value from Big Data in the Investment Management Process: A Workflow Analysis\*](#) (2025).
- [Comment letter] [\*Response to IOSCO CR/01/2025 — Artificial Intelligence in Capital Markets\*](#) (2025).
- [\*The Automation Ahead\*](#), including specifically [\*Agentic AI For Finance: Workflows, Tips, and Case Studies\*](#) (2025)
- [\*Explainable AI in Finance: Addressing the Needs of Diverse Stakeholders\*](#) (2025)
- [\*AI in Asset Management: Tools, Applications, and Frontiers – Book\*](#) (2025)

### **The “proxy world” is a delegated decision-making layer, not just a distribution channel**

The progression from assistive tools to advisory systems and then autonomous agents matters because it shifts where decision authority sits. In a “proxy world”, the consumer remains the legal principal, but practical agency is increasingly exercised by an intermediary system that filters information, frames choices, and may execute transactions. That creates supervisory issues that are not well captured by a traditional channel lens:

1. ***Opacity of responsibility***: where consumer outcomes arise from interactions between a firm, a technology provider, and a foundation model, it can be difficult to identify where the relevant conduct risk crystallised and who could reasonably have prevented it.

Some of these issues are already covered by technology-agnostic rules, for example, requirements for fair, clear and not misleading communications, suitability and appropriateness where applicable, and effective systems and controls. We agree with these measures in principle. The practical problem is evidencing compliance and allocating accountability when the decision-making process is distributed across multiple systems and firms, and when consumer engagement is shaped by AI-driven interfaces.

A further conduct risk arises from the potential for regulatory arbitrage via interface design. AI-enabled retail interfaces may generate advice-like outcomes such as personalised product steering, dynamic suitability scoring, or portfolio construction guidance without formally crossing the legal threshold of a “recommendation” as defined under Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. This creates a risk of “advice by architecture,” where the functional effect on consumer decision-making is equivalent to regulated advice, even if the interaction is framed as informational or assistive. We therefore encourage the FCA to apply a substance-over-form lens when assessing AI-mediated distribution models.

- 2. *Consumer outcomes under automation bias and AI-enabled nudging:*** AI-mediated retail services will likely intensify behaviour risks, such as automation bias, over-reliance, and reduced consumer understanding. This matters because the Consumer Duty is framed around outcomes, not intent. A system that reliably produces “confident” outputs may increase trust and reduce challenge, even where recommendations are incomplete, poorly evidenced, or not tailored to the consumer’s suitability. Vulnerable consumers – a central focus of the Consumer Duty – may be disproportionately exposed.

The IOSCO’s 2025 consultation report<sup>3</sup> highlights “technology and automation bias” and warns that undue trust in AI output can lead individuals and firms to defer to AI systems when it is inappropriate to do so.

Academic evidence (e.g., Logg, Minson & Moore, 2019, “Algorithm Appreciation: People Prefer Algorithmic to Human Judgment”<sup>4</sup>) also suggests that individuals can exhibit algorithm appreciation – a tendency to prefer algorithmic advice to human judgement in certain settings. These dynamics are likely to be amplified when AI models are personified, embedded in social media, or positioned as trusted proxies.

We therefore encourage the FCA to treat consumer reliance and AI-enabled nudging as core Duty considerations –not merely communications or distribution mechanics. Practically, that means firms should be expected to test, monitor, and evidence outcomes in a way that captures how consumers actually use these systems, not only how the firm intends them to be used.

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<sup>3</sup> [IOSCO - Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges](#)

<sup>4</sup> [Algorithm appreciation: People prefer algorithmic to human judgment](#), Organizational Behavior and Human Decision Processes, Volume 151, March 2019, Pages 90-103

## Accountability and meaningful oversight when AI supply chains are opaque

There is an inherent tension between predictive performance and interpretability in complex models. As CFA Institute's 2022 Ethics and Artificial Intelligence in Investment Management framework<sup>5</sup> notes, model performance and explainability often trade off; improvements in predictive capability may come at the cost of transparency and explainability.

The joint Bank of England–FCA 2024 survey on AI in UK financial services illustrates a governance challenge<sup>6</sup>:

- Almost half of respondent firms (46%) reported having only “partial understanding” of the AI technologies they deploy – often due to third-party reliance; while a large majority (84%) reported having an accountable person for their AI framework.
- Taken together, they point to a governance asymmetry where nominal accountability exists but may not be matched by effective challenge in practice.

In our view, the FCA can reduce this gap without creating AI-specific rules by setting clearer expectations on what “meaningful oversight” looks like under the existing frameworks (i.e., SYSC and SM&CR) when firms deploy AI in material, retail-facing use cases.

- Encourage a standardised mapping between the assistive–advisory–autonomous spectrum and governance intensity.
- Clarify what evidence is expected to demonstrate that a senior manager has taken “reasonable steps” where the firm’s AI capability depends on third-party models and services
- Make explicit that, even where responsibilities are shared across multiple accountable persons or functions, firms should still be able to identify a single point of regulatory responsibility for end-to-end consumer outcomes.
- Reinforce expectations on third-party risk management and operational resilience for AI dependencies.

We suggest where firms rely on complex or third-party AI systems, accountable senior managers should be able to demonstrate a working understanding and periodic review of the system’s purpose, limitations, validation processes, and material risk factors, including data dependencies and failure modes. They should also evidence effective challenge of internal and external providers, regular governance reporting, and clearly defined incident management pathways.

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<sup>5</sup> [CFA Institute - Ethics & Artificial Intelligence in Investment Management](#)

<sup>6</sup> [Bank of England and Financial Conduct Authority - Artificial intelligence in UK financial services](#)

## Market structure and systemic considerations

Although the Review is retail-focused, we appreciate the considerations of market structure and resilience. The Financial Stability Board (FSB)'s 2024 report<sup>7</sup> identifies AI-related vulnerabilities with potential systemic implications:

- (i) Third-party dependencies and service provider concentration
- (ii) Correlated model behaviour
- (iii) Cyber risk amplification
- (iv) Model risk, data quality, and governance

The IMF's 2024 Global Financial Stability Report<sup>8</sup> similarly notes that the greater use of AI in trading and investment strategies may increase turnover and asset correlations, and may increase market speed and volatility under stress, particularly if AI models respond to shocks in similar ways.

Increasing reliance on similar models, data sources, or optimisation techniques could lead to correlated retail trading behaviour, particularly during stress events. Such convergence may amplify volatility, contribute to liquidity cliff effects, and accelerate feedback loops between retail platforms and wholesale markets.

In the FCA context, the question is not whether these risks exist in the abstract, but whether current supervisory tools – including data collection, market monitoring, and third-party oversight – are calibrated for a world in which a small number of model providers and consumer-facing interfaces could shape behaviour at scale.

We therefore encourage the FCA to work closely with the Bank of England to ensure AI-related third-party concentration risks are captured in operational resilience planning and, where relevant, reflected in the critical third parties regime. It is also important to maintain alignment with international standard-setters – including IOSCO's work on AI – to reduce the risk of regulatory arbitrage and to support UK competitiveness through consistent supervision.

## Talent, hybrid skills, and professional standards

Last but not least, effective governance of AI-enabled retail finance depends on capability. CFA Institute's research and regulatory engagement, including our 2025 response to IOSCO's consultation<sup>9</sup>, have highlighted a skills gap resulting from a shortage of AI professionals in financial services industry. Specifically, we believe that the skills needed to effectively harness

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<sup>7</sup> [Financial Stability Board - The Financial Stability Implications of Artificial Intelligence](#)

<sup>8</sup> [International Monetary Fund - Global financial stability report: steadying the course: uncertainty, artificial intelligence, and financial stability](#)

<sup>9</sup> [CFA Institute - Public Comment re: IOSCO – Artificial Intelligence in Capital Markets: Use Cases, Risks, and Challenges](#)

AI technologies in the finance sector are hybrid skills: professionals with sufficient expertise in technology and broader systemic market issues.

Under-resourcing of such hybrid expertise can inhibit firms from adopting AI safely and effectively. The same constraint applies to supervisory technology, where effective oversight of AI-driven models depends on regulators equipped with comparable technical and market expertise.

Our 2021 research on “T-shaped teams”<sup>10</sup> suggests a potential organisational response – integrating investment expertise, innovation capacity, and technology application across investment processes. While organisational models will continue to evolve, AI capability in finance must be embedded within organisational fiduciary and governance frameworks, rather than isolated within technical functions.

We also view professional standards as competitive infrastructure. As AI increasingly automates and standardises analytical tasks, marginal value shifts toward professional judgement, fiduciary reasoning, and ethical governance. Strengthening hybrid talent pipelines should therefore be regarded as part of the UK’s long-term competitiveness strategy in an AI-mediated financial system, including for supervision and enforcement.

## **Concluding remarks**

We appreciate the FCA’s intention to anchor AI-related supervisory expectations within the established conduct and governance framework, rather than creating a standalone regime. At the same time, the shift from assistive to autonomous AI presents distinct structural, technological and behavioural opportunities and risks that cannot always be addressed through direct transposition of existing rules without careful calibration. The critical issue now is operational clarity and practical articulation of how existing frameworks apply – especially in relation to SM&CR accountability, third-party dependencies, and Consumer Duty outcomes.

A balanced and holistic approach is therefore essential – one that leverages international cooperation, embraces technological responsible innovation, and establishes stringent yet proportionate safeguards. These steps can preserve the UK’s competitiveness as a global financial centre while ensuring retail financial services remain resilient, accountable, and worthy of public trust.

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<sup>10</sup> [CFA Institute - T-Shaped Teams: Organizing to Adopt AI and Big Data at Investment Firms](#)



We encourage continued engagement between regulators and market participants as supervisory expectations evolve, and would welcome further dialogue as the FCA develops its policy approach.

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Thank you for your consideration of our views and perspectives. We would welcome the opportunity to meet with you to provide more details. If you have any questions or seek further elaboration of our views, please contact Mr. Olivier Fines, Head of Advocacy and Policy Research at CFA Institute, at [olivier.fines@cfainstitute.org](mailto:olivier.fines@cfainstitute.org) and Mr. Rhodri Preece, Senior Head of Research at CFA Institute, at [rhodri.preece@cfainstitute.org](mailto:rhodri.preece@cfainstitute.org).

Sincerely,

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